Ray Nkonyeni Municipality
(Registration number KZN216)
Annual Financial Statements
for the period ended 30 June 2017

General Information

Nature of business and principal activities	Local Municpality
Mayoral committee	
Mayor	Cllr N C P Mqwebu (Mayor)
	Cllr Y Nair (Deputy Mayor)
	Cllr D P Njoko (Speaker)
	Cllr Z G Maphumulo (Chief whip)
Executive Committee	Cllr M Lubanyana
	Cllr H C Boyland
	Cllr S A Dlamalala
	Cllr M A Mpisi
	Cllr V L Ntanza
	Cllr W S Ndwalane
	Cllr D Rawlins
	Cllr J S Ndovela
	Cllr M Thozi
Grading of local authority	4 (former Hibiscus Coast Municipality)
Accounting Officer	Mr S M Mbili
Chief Finance Officer (CFO)	Ms N Gqola
Registered office	Civic Centre 10 Connor Street Port Shepstone 4240
Business address	Civic Centre 10 Connor Street Port Shepstone 4240
Bankers	Nedbank; Absa First National Bank; Investec
Auditors	Auditor-General of South Africa Registered Auditors
Level of assurance	These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Preparer	The annual financial statements were independently compiled by: Dynamic Dashing Solutions

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accouning officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers have reviewed the municipality's cash flow forecast for the period 01 July 2017 to 30 June 2018 and, in the light of this review and the current financial position, he are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the community and state for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Ray Nkonyeni Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the municipality is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 69, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on the municipality's behalf by:

Accounting Officer
Mr S M Mbili

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017
Assets		
Current Assets		
Inventories	9	3 366 924
Loan receivable	7	679 653
Receivables from non-exchange transactions	10	184 761 308
VAT receivable	11	8 734 697
Receivables from exchange transactions	12	48 598 400
Cash and cash equivalents	13	93 557 090
		339 698 072
Non-Current Assets		
Investment property	3	235 787 696
Property, plant and equipment	4	1 236 372 236
Intangible assets	5	354 409
Heritage assets	6	1 636 953
Loan receivable	7	7 157 481
		1 481 308 775
Total Assets		**1 821 006 847**
Liabilities		
Current Liabilities		
Long-term loans	15	10 122 005
Payables from exchange transactions	18	136 178 110
Consumer deposits	19	22 926 137
Employee benefit obligation	8	3 986 000
Unspent conditional grants and receipts	14	26 475 234
Landfill site provision	16	34 169 042
Long-service awards	17	1 351 000
		235 207 528
Non-Current Liabilities		
Long-term loans	15	18 318 869
Employee benefit obligation	8	90 683 000
Long-service awards	17	15 230 000
		124 231 869
Total Liabilities		**359 439 397**
Net Assets		**1 461 567 450**
Reserves		
Revaluation reserve		105 829 621
Accumulated surplus		1 355 737 829
Total Net Assets		**1 461 567 450**

Statement of Financial Performance

Figures in Rand	Note(s)	2017
Revenue		
Revenue from exchange transactions		
Service charges	21	147 571 036
Rental of facilities and equipment	22	2 790 649
Interest received (trading)		11 497 908
Agency services		4 817 111
Licences and permits		3 822 999
Other income	23	14 778 230
Interest received - investment	24	5 251 457
Total revenue from exchange transactions		**190 529 390**
Revenue from non-exchange transactions		
Taxation revenue		
Property rates	25	316 005 575
Property rates - penalties imposed	25	111 485
Transfer revenue		
Government grants & subsidies	27	259 801 648
Fines, Penalties and Forfeits		83 939 474
Housing revenue		12 476 089
Technology Hub		20 101 405
Total revenue from non-exchange transactions		**692 435 676**
Total revenue	20	**882 965 066**
Expenditure		
Employee related costs	28	(324 169 755)
Remuneration of councillors	29	(22 043 919)
Depreciation and amortisation	30	(59 944 536)
Impairment loss/ Reversal of impairments		(1 765 413)
Finance costs	31	(3 129 629)
Debt Impairment	32	(126 157 751)
Repairs and maintenance		(33 442 254)
Bulk purchases	33	(75 593 791)
Contracted services	34	(32 289 697)
Transfers and Subsidies	26	(4 603 654)
General Expenses	35	(219 349 001)
Total expenditure		**(902 489 400)**
Operating deficit		**(19 524 334)**
Deficit for the period		**(19 524 334)**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Take-on balance as at 10 August 2016 (Note 39)	**8 787 212**	**1 375 262 163**	**1 384 049 375**
Changes in net assets			
Surplus for the period	-	(19 524 334)	(19 524 334)
Revaluation movement	97 042 409	-	97 042 409
Total changes	97 042 409	(19 524 334)	77 518 075
Balance at 30 June 2017	**105 829 621**	**1 355 737 829**	**1 461 567 450**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2017
Cash flows from operating activities		
Receipts		
Taxation		31 247 947
Sale of goods and services		142 527 932
Grants		264 851 545
Interest income		5 251 457
Service charges		147 571 036
Other income		59 819 935
		651 269 852
Payments		
Employee costs		(347 228 113)
Suppliers		(102 349 286)
Finance costs		(3 129 629)
		(452 707 028)
Net cash flows from operating activities	37	**198 562 824**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	4	(103 849 861)
Purchase of other intangible assets	5	(6 050)
Advancement of loan to Ugu Municipality		679 653
Net cash flows from investing activities		**(103 176 258)**
Cash flows from financing activities		
Repayment of long-term loans		(6 778 476)
Movement in long-service award		204 000
Movement in employee benefits		4 745 000
Net cash flows from financing activities		**(1 829 476)**
Net increase/(decrease) in cash and cash equivalents		**93 557 090**
Cash and cash equivalents at the end of the year	13	**93 557 090**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	183 537 000	(8 000 000)	**175 537 000**	147 571 036	**(27 965 964)**	51.1
Rental of facilities and equipment	3 384 000	(189 000)	**3 195 000**	2 790 649	**(404 351)**	51.2
Interest received (trading)	10 485 000	(250 000)	**10 235 000**	11 497 908	**1 262 908**	51.3
Agency services	49 000	(10 000)	**39 000**	4 817 111	**4 778 111**	51.4
Licences and permits	13 092 000	(565 000)	**12 527 000**	3 822 999	**(8 704 001)**	51.5
Other income	60 358 000	(7 353 000)	**53 005 000**	14 778 230	**(38 226 770)**	51.6
Interest received - investment	6 822 000	(2 287 000)	**4 535 000**	5 251 457	**716 457**	51.7
Total revenue from exchange transactions	**277 727 000**	**(18 654 000)**	**259 073 000**	**190 529 390**	**(68 543 610)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	345 274 000	(173 000)	**345 101 000**	316 005 575	**(29 095 425)**	
Property rates - penalties imposed	-	-	**-**	111 485	**111 485**	
Transfer revenue						
Government grants & subsidies	200 962 000	1 700 000	**202 662 000**	259 801 648	**57 139 648**	
Fines, Penalties and Forfeits	10 494 000	4 954 000	**15 448 000**	83 939 474	**68 491 474**	51.8
Housing revenue	-	-	**-**	12 476 089	**12 476 089**	
Technology Hub	-	-	**-**	20 101 405	**20 101 405**	
Total revenue from non-exchange transactions	**556 730 000**	**6 481 000**	**563 211 000**	**692 435 676**	**129 224 676**	
Total revenue	**834 457 000**	**(12 173 000)**	**822 284 000**	**882 965 066**	**60 681 066**	
Expenditure						
Personnel	(337 347 000)	(22 343 000)	**(359 690 000)**	(324 169 755)	**35 520 245**	
Remuneration of councillors	(25 448 000)	-	**(25 448 000)**	(22 043 919)	**3 404 081**	51.9
Depreciation and amortisation	(70 058 000)	(600 000)	**(70 658 000)**	(59 944 536)	**10 713 464**	51.10
Impairment loss/ Reversal of impairments	-	-	**-**	(1 765 413)	**(1 765 413)**	51.11
Finance costs	(4 373 000)	288 000	**(4 085 000)**	(3 129 629)	**955 371**	51.12
Debt Impairment	(682 000)	(3 200 000)	**(3 882 000)**	(126 157 751)	**(122 275 751)**	51.13
Bulk purchases	(86 712 000)	6 000 000	**(80 712 000)**	(75 593 791)	**5 118 209**	
Contracted Services	(38 179 000)	(10 989 000)	**(49 168 000)**	(32 289 697)	**16 878 303**	51.14
Transfers and Subsidies	(10 393 000)	-	**(10 393 000)**	(4 603 654)	**5 789 346**	51.15
General Expenses	(213 035 000)	(38 955 000)	**(251 990 000)**	(219 349 001)	**32 640 999**	51.16
Other materials	(50 167 000)	28 000	**(50 139 000)**	(33 442 254)	**16 696 746**	51.17
Total expenditure	**(836 394 000)**	**(69 771 000)**	**(906 165 000)**	**(902 489 400)**	**3 675 600**	
Deficit before taxation	**(1 937 000)**	**(81 944 000)**	**(83 881 000)**	**(19 524 334)**	**64 356 666**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(1 937 000)**	**(81 944 000)**	**(83 881 000)**	**(19 524 334)**	**64 356 666**	
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	2 265 000	-	**2 265 000**	3 366 924	**1 101 924**	
Loan receivable	1 964 000	-	**1 964 000**	679 653	**(1 284 347)**	
Receivables from non-exchange transactions	-	-	**-**	184 761 308	**184 761 308**	
VAT receivable	7 697 000	-	**7 697 000**	8 734 697	**1 037 697**	
Consumer debtors	211 056 000	(3 200 000)	**207 856 000**	48 598 400	**(159 257 600)**	
Investments	66 857 000	(5 480 000)	**61 377 000**	-	**(61 377 000)**	
Cash and cash equivalents	37 049 000	(3 120 000)	**33 929 000**	93 557 090	**59 628 090**	
	326 888 000	**(11 800 000)**	**315 088 000**	**339 698 072**	**24 610 072**	
Non-Current Assets						
Investment property	235 621 000	-	**235 621 000**	235 787 696	**166 696**	
Property, plant and equipment	1 261 425 000	6 704 000	**1 268 129 000**	1 236 372 236	**(31 756 764)**	
Intangible assets	713 000	-	**713 000**	354 409	**(358 591)**	
Heritage assets	-	-	**-**	1 636 953	**1 636 953**	
Loan receivable	8 037 000	-	**8 037 000**	7 157 481	**(879 519)**	
	1 505 796 000	**6 704 000**	**1 512 500 000**	**1 481 308 775**	**(31 191 225)**	
Total Assets	**1 832 684 000**	**(5 096 000)**	**1 827 588 000**	**1 821 006 847**	**(6 581 153)**	
Liabilities						
Current Liabilities						
Long-term loans	7 728 000	-	**7 728 000**	10 122 005	**2 394 005**	
Payables from exchange transactions	100 233 000	-	**100 233 000**	136 178 110	**35 945 110**	
Consumer deposits	21 920 000	-	**21 920 000**	22 926 137	**1 006 137**	
Employee benefit obligation	-	-	**-**	3 986 000	**3 986 000**	
Unspent conditional grants and receipts	-	-	**-**	26 475 234	**26 475 234**	
Landfill site provision	36 690 000	-	**36 690 000**	34 169 042	**(2 520 958)**	
Long-service awards	-	-	**-**	1 351 000	**1 351 000**	
	166 571 000	**-**	**166 571 000**	**235 207 528**	**68 636 528**	
Non-Current Liabilities						
Long-term loans	20 486 000	-	**20 486 000**	18 318 869	**(2 167 131)**	
Employee benefit obligation	96 229 000	798 000	**97 027 000**	90 683 000	**(6 344 000)**	
Long-service awards	-	-	**-**	15 230 000	**15 230 000**	
	116 715 000	**798 000**	**117 513 000**	**124 231 869**	**6 718 869**	
Total Liabilities	**283 286 000**	**798 000**	**284 084 000**	**359 439 397**	**75 355 397**	
Net Assets	**1 549 398 000**	**(5 894 000)**	**1 543 504 000**	**1 461 567 450**	**(81 936 550)**	

Ray Nkonyeni Municipality
(Registration number KZN216)
Annual Financial Statements for the period ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	678 785 000	(357 544 000)	**321 241 000**	105 829 621	**(215 411 379)**	
Accumulated surplus	870 613 000	351 650 000	**1 222 263 000**	1 355 737 829	**133 474 829**	
Total Net Assets	**1 549 398 000**	**(5 894 000)**	**1 543 504 000**	**1 461 567 450**	**(81 936 550)**	

Ray Nkonyeni Municipality

(Registration number KZN216)
Annual Financial Statements for the period ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property rates, penalties and collection charges	327 544 000	291 000	**327 835 000**	31 247 947	**(296 587 053)**	
Service charges	174 359 000	(13 444 000)	**160 915 000**	290 098 968	**129 183 968**	
Other revenue	77 913 000	(9 880 000)	**68 033 000**	59 819 935	**(8 213 065)**	
Interest income	11 104 000	(2 987 000)	**8 117 000**	5 251 457	**(2 865 543)**	
Government grant - operating	200 962 000	1 700 000	**202 662 000**	188 233 410	**(14 428 590)**	
Governament grant - capital	121 838 000	(39 557 000)	**82 281 000**	76 618 135	**(5 662 865)**	
	913 720 000	**(63 877 000)**	**849 843 000**	**651 269 852**	**(198 573 148)**	
Payments						
Employee costs	(725 860 000)	17 603 000	**(708 257 000)**	(449 577 399)	**258 679 601**	
Finance costs	(4 373 000)	288 000	**(4 085 000)**	(3 129 629)	**955 371**	
Transfers and grants	(9 509 000)	155 000	**(9 354 000)**	-	**9 354 000**	
	(739 742 000)	**18 046 000**	**(721 696 000)**	**(452 707 028)**	**268 988 972**	
Net cash flows from operating activities	**173 978 000**	**(45 831 000)**	**128 147 000**	**198 562 824**	**70 415 824**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(146 428 000)	783 000	**(145 645 000)**	(6 050)	**145 638 950**	
Advancement of loan to Ugu	-	-	**-**	679 653	**679 653**	
Proceeds from sale of investment property	-	-	**-**	(103 849 861)	**(103 849 861)**	
Net cash flows from investing activities	**(146 428 000)**	**783 000**	**(145 645 000)**	**(103 176 258)**	**42 468 742**	
Cash flows from financing activities						
Repayment of borrowings	(7 046 000)	-	**(7 046 000)**	(6 778 476)	**267 524**	
Movement in Long service award	-	-	**-**	204 000	**204 000**	
Movement in employee cost	-	-	**-**	4 745 000	**4 745 000**	
Increase in consumer deposits	800 000	-	**800 000**	-	**(800 000)**	
Net cash flows from financing activities	**(6 246 000)**	**-**	**(6 246 000)**	**(1 829 476)**	**4 416 524**	
Net increase/(decrease) in cash and cash equivalents	21 304 000	(45 048 000)	**(23 744 000)**	93 557 090	**117 301 090**	
Cash and cash equivalents at the beginning of the year	82 603 000	36 448 000	**119 051 000**	-	**(119 051 000)**	
Cash and cash equivalents at the end of the year	**103 907 000**	**(8 600 000)**	**95 307 000**	**93 557 090**	**(1 749 910)**	

Reconciliation

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

Accounting Policies

1.2 Mergers

Accounting by the entity as the combined entity

Initial recognition and measurement

On the 10th of August 2016(merger date), Hibiscus Coast Municipality and Ezinqoleni Municipality merged to form Ray Nkonyeni Municipality. As of the merger date, Ray Nkonyeni Municipality recognised all the assets acquired and assumed liabilites of the aforementined municipalities. The assets and liabilities assumed are measured at their carrying amounts.

The difference between the carrying amounts of the assets acquired and the liabilities assumed are recognised in accumulated surplus or deficit.

Measurement period

If the initial accounting for a merger is incomplete by the end of the reporting period in which the merger occurs, the municipality reports in its annual financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the merger date to reflect new information obtained about facts and circumstances that existed as of the merger date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the merger date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the merger date.

The municipality considers all relevant factors in determining whether information obtained after the merger date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the merger date. Relevant factors include the date when additional information is obtained and whether the municipality can identify a reason for a change to provisional amounts.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess in accumulated surplus or deficit.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the merger had been completed at the merger date. Thus, the municipality revises comparative information for prior periods presented in annual financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a merger only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Expenditure incurred in relation to the merger

Expenditures incurred in relation to the merger are costs that the entity incurs to effect the merger. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, costs to furnish information to owners of the combining entities, and salaries and other expenses related to services of employees involved in achieving the merger. It also includes costs or losses incurred in combining the assets and liabilities of the combining entities. The municipality accounts for such expenditure as expenses in the period in which the costs are incurred.

Subsequent measurement

The municipality subsequently measures any assets acquired and any liabilities assumed in a merger in accordance with the applicable Standards of GRAP.

At the merger date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, the operating or accounting policies and other relevant conditions as these exist at the merger date.

The annual financial statements of the municipality are prepared using uniform accounting policies for similar transactions and other events or similar circumstances.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment testing

Financial assets:

The accounting policy on financial instruments describes the process followed to determine the value by which financial assets should be impaired. In making the estimation, management of the municipality considered the detailed criteria of impairment of assets as set out in GRAP 104: Financial Instruments. Management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

Useful lives of Property, Plant and Equipment(PPE) and Intangible assets:

As described in the accounting policy relating to PPE and intangible assets, the municipality depreciates/ammortises its PPE and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives. The useful lives and residual values of assets are based on industry knowledge.

Impairment of Property, Plant and Equipment, Intangible assets and Inventories:

The municipality reviews and tests the carrying value of assets when events or changes in circumstance suggests that the carrying amount of the assets may not be recoverable.

Defined Benefit Plan Liabilities:

As described in the accounting policy relating to employee benefits, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The obligations identified in this regard are Post-Retirement Health Benefit Obligations and Long-Service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25: Employee Benefits. Details of these liabilities and key assumptions made by the actuaries in estimating the liabilities are provided in the Employee Benefit Obligations note to the financial statements.

Provisions:

A provision for the closure of Outland Landfill Site has been raised based on valuations conducted by experts. Additional disclosure of the estimate of the provision is included in the notes to the financial statements.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Accounting Policies

1.4 Investment property (continued)

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Accounting Policies

1.5 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Revalued Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	10-30 years
Infrastructure		
• Roads and paving	Straight line	5-30 years
• Electricity	Straight line	10-30 years
• Solid waste and disposal	Straight line	10-30 years
Community		
• Recreational facilities	Straight line	20-30 years
• Buildings and other structures	Straight line	20-30 years
• Improvements	Straight line	20-30 years
Other property, plant and equipment		
• Bins and containers	Straight line	5-10 years
• Computers and office equipment	Straight line	4-5 years
• Furniture and fittings	Straight line	5-10 years
• General motor vehicles	Straight line	4-5 years
• Specialised motor vehicles	Straight line	15-20 years
• Plant and machinery	Straight line	1-15 years
• Security measures	Straight line	4-5 years

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Expenditure on an intangible asset shall be recognised as an expense when it is incurredunless it forms part of an intangible asset that meets the recognition criteria.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An entity shall assess whether the useful life of an intangible asset is finite or indefinite. An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	5 years

1.7 Heritage assets

Heritage assets are defined as assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Accounting Policies

1.7 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Accounting Policies

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long-term loan	Financial asset measured at amortised cost
Receivables from consumers	Financial asset measured at amortised cost
Bank balances and Cash	Financial asset measured at amortised cost
Short-term investments deposits	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long-term loans	Financial liability measured at amortised cost
Creditors	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Accounting Policies

1.8 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Accounting Policies

1.9 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories of items of a similar nature and use is assigned using the weighted average cost formula.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term “contractor” thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

Accounting Policies

1.12 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

Accounting Policies

1.14 Employee benefits (continued)

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.14 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

The municipality treats its provision for leave pay and bonuses as accruals. The cost of all short-term employee benefits such as leave pay and bonuses are recognised in theperiod in which the employee renders the related services. The liability for leave pay and bonuses are based on the accrued leave days and accrued bonus payments at year end respectively.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the financial statements.

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and

Accounting Policies

1.16 Commitments (continued)

- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.17 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises property rates in terms of the Municipl Property Rates Act and the municipal rates policy.

The municipality recognises property rates when the taxable event occurs and the asset recognition criteria is met. The taxable event for property tax is the passing of the date on which the tax is levied.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Government grants

Grants and donations received, or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of related conditions.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equaling the fair value of the asset received

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government,municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Managemnt Act (Act No. 56 of 2003)

1.20 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.23 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.24 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

Accounting Policies

1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2017

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current period

In the current period, the municipality has adopted the following standards and interpretations that are effective for the current financial period and that are relevant to its operations:

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

3. Investment property

	2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	235 787 696	-	235 787 696

Reconciliation of investment property - 2017

	Opening balance	Take-on balance	Total
Investment property	-	235 787 696	235 787 696

A register containing the information required by Section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Property, plant and equipment

	2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	28 767 333	-	28 767 333
Buildings	357 516 544	(132 015 057)	225 501 487
Plant and machinery	31 072 478	(24 209 269)	6 863 209
Furniture and fixtures	29 336 574	(24 660 256)	4 676 318
Motor vehicles	46 397 521	(31 665 859)	14 731 662
Office equipment	21 218 375	(15 738 598)	5 479 777
Infrastructure	1 786 770 982	(962 931 676)	823 839 306
Bins and containers	1 537 196	(971 770)	565 426
Under construction	125 947 718	-	125 947 718
Security measures	527 124	(527 124)	-
Total	**2 429 091 845**	**(1 192 719 609)**	**1 236 372 236**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Take-on balance	Additions	Adjustments	Depreciation	Impairment loss	Total
Land	-	28 767 333	-	-	-	-	28 767 33
Buildings	-	191 290 177	30 116 761	14 152 724	(10 058 175)	-	225 501 48
Machinery and equipment	-	8 308 108	655 609	-	(2 043 078)	(57 430)	6 863 20
Furniture and fixtures	-	5 737 049	619 768	-	(1 568 628)	(111 871)	4 676 31
Motor vehicles	-	16 939 538	1 719 928	-	(3 429 464)	(498 340)	14 731 66
Computer and office equipment	-	5 630 799	1 599 520	-	(1 452 857)	(297 685)	5 479 77
Infrastructure	-	741 653 493	46 662 843	83 413 657	(47 151 385)	(739 302)	823 839 30
Bins and containers	-	496 919	171 892	-	(103 385)	-	565 42
Under construction	-	103 965 552	23 401 903	(1 354 128)	-	(65 609)	125 947 71
	-	**1 102 788 968**	**104 948 224**	**96 212 253**	**(65 806 972)**	**(1 770 237)**	**1 236 372 23**

Figures in Rand	2017

4. Property, plant and equipment (continued)

Reconciliation of Work in Progress

Work in progress- infrastructure:	
Take on balance	52 911 672
Additions	5 331 300
Adjustments	1 121 577
Work in Progress-Buildings:	
Take on balance	50 988 271
Additions	18 070 603
Adjustments	(2 475 704)
Work in Progress-Intangibles	
Take on balance	65 609
Impairment	(65 609)
Terms and conditions	
Total WIP:	125 947 718

No property, plant and equipment was placed as security for financial liabilities

A register containing the information required by Section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Intangible assets

	2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 567 318	(2 212 909)	354 409

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Additions through transfer of functions / mergers	Amortisation	Impairment loss	Total
Other intangible assets	-	6 050	581 972	(165 372)	(68 241)	354 409

6. Heritage assets

	2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value
National monuments	1 874 617	(237 664)	1 636 953

Reconciliation of heritage assets 2017

	Opening balance	Take-on balance	Impairment losses recognised	Total

Figures in Rand	2017

6. Heritage assets (continued)

National monuments	-	1 654 953	(18 000)	1 636 953

7. Loan receivable

At amortised cost	
Ugu District Municipality	
The loan receivable represents a portion of a loan from Development Bank of South Africa (DBSA) that was paid by Hibiscus Coast Municipality on behalf of Ugu District Municipality. This loan arose due to a transfer and powers and functions. The loan is payable in variable installments in December and June each year.	-
Long term debtors	7 837 134
	7 837 134

Non-current assets	
At amortised cost	7 157 481
Current assets	
At amortised cost	679 653

8. Employee benefit obligations

Defined benefit plan

The municipality provides certain post-retirement health care benefts by funding the medical aid contributions of certain retired memnbers of the Municipality. According to the rules of the Medical aid fund, with which the munucipality is associated, a member (who is on the current condition of service) is entitled to remain continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee.The most recent actuarial valuations were carried out at 30 June 2015 by One Pangae Financial, Fellow of the Faculty of Actuaries and Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost,were measured using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are as follows:

Carrying value	
Balance at the beginning of the year	(91 070 000)
Current service cost	(4 486 000)
Interest costs	(8 685 000)
Contributions paid	3 151 000
Actuarial (gain) / loss	6 421 000
	(94 669 000)

Non-current liabilities	(90 683 000)
Current liabilities	(3 986 000)
	(94 669 000)

Net expense recognised in the statement of financial performance

Current service cost	4 486 000
Interest cost	8 685 000
Actuarial (gains) losses	(6 421 000)
	6 750 000

Notes to the Annual Financial Statements

Figures in Rand	2017

8. Employee benefit obligations (continued)

Members of the Post Employment Medical Subsidy

Active employees	587
Continuation pensioners	97
	684

The liabilities in respect of past service has been estimated as follows

Active employees	46 775 000
Continuation pensioners	47 894 000
	94 669 000

Key assumptions used

The key assumptions used for the purpose of the actuarial valuations were as follows:

Discount rate		10,10 %
Consumer price inflation		6,86 %
Health care cost inflation		8,36 %
Net discount rate		1,61 %
Normal retirement age	63	
Fully accrued age	60	
Mortality	85-90	

The basis on which the discount rate has been determined is as follow: [state basis]

The basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets, is as follows:

9. Inventories

Maintenance materials	3 342 532
House selling stock	24 392
	3 366 924

10. Receivables from non-exchange transactions

Fines	43 847 093
Sundry debtors	34 325 368
Consumer debtors - penalties	3 436 514
Consumer debtors - Rates	102 329 910
Other non-exchange receivables	822 423
	184 761 308

11. VAT receivable

VAT	8 734 697

Notes to the Annual Financial Statements

Figures in Rand	2017

11. VAT receivable (continued)

The municipality accounts for vat on a payment basis. The municipality is liable for vat at the standard rate (14%) in terms of Section 7 (1)(a) of the VAT act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of Section 11, exempted in terms of Section 12 of the VAT act or are scoped out for vat purposes. The municipality accounts for vat on a monthly basis.

12. Receivables from exchange transactions

Gross balances	
Accrued interest income - Investments	96 520
Electricity	14 760 814
Refuse	17 406 403
Other receivables	11 851 172
Legal fees	4 452 519
Interest	32 755 076
	81 322 504

Less: Allowance for impairment	
Electricity	(1 180 420)
Refuse	(8 547 166)
Other receivables	(5 896 952)
Legal fees	(2 203 514)
Interest	(14 896 052)
	(32 724 104)

Net balance	
Accrued interest income - Investments	96 520
Electricity	13 580 394
Refuse	8 859 237
Other receivables	5 954 220
Legal fees	2 249 005
Interest	17 859 024
	48 598 400

Accrued interest income - Investments	
Current (0 -30 days)	96 520

Electricity	
Current (0 -30 days)	8 790 626
31 - 60 days	2 066 922
61 - 90 days	299 622
91 - 120 days	166 817
121 - 365 days	798 357
> 365 days	1 458 050
	13 580 394

Notes to the Annual Financial Statements

Figures in Rand	2017

12. Receivables from exchange transactions (continued)

Refuse	
Current (0 -30 days)	6 850
31 - 60 days	3 530
61 - 90 days	527 992
91 - 120 days	428 610
121 - 365 days	2 256 438
> 365 days	5 635 817
	8 859 237

Other receivables	
Current (0 -30 days)	1 008 409
31 - 60 days	275 808
61 - 90 days	197 169
91 - 120 days	214 620
121 - 365 days	1 259 317
> 365 days	2 998 897
	5 954 220

Legal fees	
Current (0 -30 days)	75 592
31 - 60 days	50 936
61 - 90 days	51
91 - 120 days	5 775
121 - 365 days	153 233
> 365 days	1 963 418
	2 249 005

Interest	
Current (0 -30 days)	596 026
31 - 60 days	580 202
61 - 90 days	559 343
91 - 120 days	532 443
121 - 365 days	3 177 779
> 365 days	12 413 231
	17 859 024

Notes to the Annual Financial Statements

Figures in Rand	2017

12. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Consumers	
Current (0 -30 days)	12 818 114
31 - 60 days	3 967 465
61 - 90 days	2 781 480
91 - 120 days	2 438 599
121 - 365 days	13 939 366
> 365 days	45 280 960
	81 225 984
Less: Allowance for impairment	(32 724 104)
	48 501 880

Total	
Current (0 -30 days)	12 914 634
31 - 60 days	3 967 465
61 - 90 days	2 781 480
91 - 120 days	2 438 599
121 - 365 days	13 939 366
> 365 days	45 280 960
	81 322 504
Less: Allowance for impairment	(32 724 104)
	48 598 400

Less: Allowance for impairment	
Current (0 -30 days)	(2 340 611)
31 - 60 days	(990 066)
61 - 90 days	(1 197 302)
91 - 120 days	(1 090 333)
121 - 365 days	(6 294 242)
> 365 days	(20 811 550)
	(32 724 104)

Reconciliation of allowance for impairment	
Contributions to allowance	(32 724 104)

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	44 804
Bank balances	26 623 969
Short-term deposits	66 888 317
	93 557 090

13. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	09 August 2016	09 August 2015	30 June 2017	09 August 2016	09 August 2015
Nedbank - Primary Account - 102-054-1857	16 183 123	-	-	16 183 123	-	-
First National Bank - Primary Account - 620-249-43153	4 079 635	-	-	4 079 635	-	-
Nedbank - Petty Cash - 102-087-0974	8 054	-	-	8 054	-	-
Nedbank - Salaries Account - 103-988-7279	16 960	-	-	16 960	-	-
ABSA Bank - Lousiana HSG - 910-281-5623	8 404 311	-	-	8 404 311	-	-
ABSA Bank - Nzimakwe 1 HSG - 914-947-4529	541 232	-	-	541 232	-	-
ABSA Bank - Nzimakwe 2 HSG - 914-947-4927	898 560	-	-	898 560	-	-
ABSA Bank - Bhobhoyi SUB-HSG - 914-947-5509	285 325	-	-	285 325	-	-
ABSA Bank - Bhoboyi EST-HSG - 914-947-5753	12 993	-	-	12 993	-	-
ABSA Bank - Damaged Houses - 914-947-5208	69 876	-	-	69 876	-	-
ABSA Bank - Uplands HSG - 91-4940-1627	69 811	-	-	69 811	-	-
ABSA BANK - Mkholombe HSG - 91-4940-1164	1 261 002	-	-	1 261 002	-	-
ABSA Bank - EPWP - 928-608-0526	461 185	-	-	461 185	-	-
ABSA BANK - Aids Project - 915-277-5491	126 498	-	-	126 498	-	-
Standard Bank - Masinenge HSG - 89140/356988	28 194 329	-	-	28 194 329	-	-
Standard Bank - Kwamavundla HSG - 89139/356986	213 622	-	-	213 622	-	-
Standard Bank - KwaXolo Housing - 89141/356989	10 144 689	-	-	10 144 689	-	-
Standard Bank - Kwadwalane Housing - 90439/364623	459 642	-	-	459 642	-	-
Standard Bank - RNM - Unspent Conditional Grants - 89111/356985	3 640 535	-	-	3 640 535	-	-
Standard Bank - RNM-Accreditation Funds - 89111/357732	2 983 186	-	-	2 983 186	-	-
Investec Bank - MHOA (Housing Development Fund)	9 351 779	-	-	9 351 779	-	-
Nedbank - RNM Primary Investment Account - 03/7881000791/000035	188 503	-	-	188 503	-	-
Nedbank - Provincialisation of library - 03/7165019529/	67 101	-	-	67 101	-	-
Nedbank - MSIG - 03/7165019502/000001	150 564	-	-	150 564	-	-

Notes to the Annual Financial Statements

Figures in Rand 2017

13. Cash and cash equivalents (continued)

Nedbank - FMG - 03/7165019510/000001	468 397	-	-	468 397	-	-
Nedbank - Community Library Services - 03/7165020098/000001	8 073	-	-	8 073	-	-
First National Bank - MIG - 622-008-28955	130 695	-	-	130 695	-	-
First National Bank - Conditional Grant - 622-008-28533	4 558 809	-	-	5 558 809	-	-
First National Bank - Equitable shares - 625-365-40059	543 851	-	-	543 851	-	-
Cash on hand	34 750	-	-	34 750	-	-
Total	**93 557 090**	**-**	**-**	**94 557 090**	**-**	**-**

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2017
Unspent conditional grants and receipts	
Grant Obligation	8 383 849
Housing development fund	18 091 385
	26 475 234

15. Long-term loans

	2017
At amortised cost	
Total long-term loans	28 440 874

Standard Bank of South Africa:

The municipality has a structured unsecured 20 year loan with Standard Bank. The loan is repayable in fixed semi-annual installments relating to capital and interest in October and April each year. Interest is incurred at a rate of 11.56% p.a.

Develpoment Bank of Southern Africa:

The municipality took over a structured unsecured loan with the Develpment Bank as a result of a change in powers and functions of local municipalities.The loan is payable in variable semi-annual installments in December and June each year over a period of 10-20 years.Interest is incurred at variable interest rates.

	2017
Non-current liabilities	
At amortised cost	18 318 869
Current liabilities	
At amortised cost	10 122 005

Notes to the Annual Financial Statements

Figures in Rand	2017

16. Landfill site provision

The rehabilitation cost provision is for the closure costs of Outlands Landfill Site.Provision has been made for this cost based on the estimated present value of future cash flows arising from the closure cost expected as at 30 June 2017.

Reconciliation of landfill site	-
Opening balance	30 331 816,59
Current year movement	3 837 224,91
Closing balance as at 30 June 2017	34 169 041,50

17. Long-service awards

The long service award is granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The provision represents an estimation of the awards to which employees in the service of the municipality at 30 June 2017 may become entitled to in future ,based on an actuarial valuation performed at that date.The most recent actuarial valuation was carried out at 30 June 2017 by One Pangae Financial, Fellow of the Faculty of Actuaries and Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost,were measured using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are as follows:

Notes to the Annual Financial Statements

Figures in Rand	2017

17. Long-service awards (continued)

Carrying value

Long-service award	16 581 000

Non-current liabilities	15 230 000
Current liabilities	1 351 000
	16 581 000

Eligible employees

Number of eligible employees at year-end	1 161

Discount rate	8,55 %
Consumer price inflation	5,35 %
Salary increase rate	6,35 %
Net discount rate	2,07 %
	22,32 %

	Years
Normal retirement age	65
Average retirement age	63
Mortality	85 - 90

Present value of fund obligations	94 669 000

The amounts recognised in the Statement of Financial Performance under employee related costs are as follows:

Current service costs	1 381 000
Interest cost	1 278 000
Actuarial (gain)/loss recognised	(437 000)
	2 222 000

The movement in the defined benefit obligation over the years is as follows:

Balance at the begining of year	15 588 000
Current service cost	1 381 000
Interest cost	1 278 000
Contributions paid	(2 103 000)
Actuarial (gain)/loss	437 000
Closing balance	**16 581 000**

Notes to the Annual Financial Statements

Figures in Rand	2017

18. Payables from exchange transactions

Trade payables	588 266
Payments received in advanced - contract in process	30 376 350
Retentions	27 861 157
Unknown direct deposits	8 349 353
Accrued leave pay	21 014 556
Accrued bonus	8 153 243
Creditors accruals	19 323 981
Other payables	20 439 268
Operating lease	71 936
	136 178 110

19. Consumer deposits

Electricity	6 823 151
Housing rental	16 102 986
	22 926 137

20. Revenue

Service charges	147 571 036
Rental of facilities and equipment	2 790 649
Interest received (trading)	11 497 908
Agency services	4 817 111
Licences and permits	3 822 999
Operational income	14 778 230
Interest received - investment	5 251 457
Property rates	316 005 575
Property rates - penalties imposed	111 485
Government grants & subsidies	259 801 648
Fines, Penalties and Forfeits	83 939 474
Housing revenue	12 476 089
Technology Hub	20 101 405
	882 965 066

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	147 571 036
Rental of facilities and equipment	2 790 649
Interest received (trading)	11 497 908
Agency services	4 817 111
Licences and permits	3 822 999
Other income	14 778 230
Interest received - investment	5 251 457
	190 529 390

Notes to the Annual Financial Statements

Figures in Rand	2017

20. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue	
Property rates	316 005 575
Property rates - penalties imposed	111 485
Transfer revenue	
Government grants & subsidies	259 801 648
Fines, Penalties and Forfeits	83 939 474
Other transfer revenue 1	12 476 089
Other transfer revenue 2	20 101 405
	692 435 676

21. Service charges

Sale of electricity	106 140 049
Refuse removal	41 430 987
	147 571 036

22. Rental of facilities and equipment

Facilities and equipment	
Rental income	2 790 649

23. Other income

Town Planning Income	5 179 664
Sundry income	9 598 566
	14 778 230

24. Investment revenue

Interest revenue	
Bank	5 251 457

Notes to the Annual Financial Statements

Figures in Rand	2017

25. Property rates

Rates received

Residential	242 874 200
Commercial	50 480 190
State	1 813 890
Municipal	39 216 230
Small holdings and farms	9 285 769
Institutions	4 769 582
Mining	125 139
Special purpose	262 493
Agricultural	2 797 249
Less: Income forgone	(35 619 167)
	316 005 575
Property rates - penalties imposed	111 485
	316 117 060

Valuations

Residential	27 477 209 000
Commercial	2 820 196 000
Industrial	512 140 000
Agriculture	1 772 932 000
Mining	7 004 000
Institutional	1 041 887 000
Special Purposes	54 514 000
PSI Properties	2 229 249 000
Municipal	455 837 500
Vacant Land	1 934 958 000
Public Benefit Organisation	59 875 000
Communal	134 736 000
	38 500 537 500

26. Grants and subsidies paid

Other subsidies

Ex grantia pension	15 070
Mobile Library Unit	92 636
Grants and donations	807 948
Hibiscus Coast Development Agency	1 704 000
Ugu Tourism Grant	1 984 000
	4 603 654

Notes to the Annual Financial Statements

Figures in Rand	2017

27. Government grants and subsidies

Operating grants

Equitable share	145 299 000
Municipal By-Laws Grant	176 390
Finance Management Grant	3 561 945
Sportsfield Maintenance Grant	324 998
Museum Subsidy Grant	334 000
Electricity (DME)	10 680 948
Cyber Cadet Grant	1 044 676
EPWP Grant	2 660 000
Intermodal Facility Grant	2 665 580
Grant Income	128 330
Municipal Systems Improvement Grant	22 801
Disaster Management Grant	28 100
Subsidy income	88 877
LG SETA Grant	20 868
Municipal Transition Dermarcation Grant	8 579 000
Libraries Grant	7 436 000
Mobile Libraries Grant	132 000
	183 183 513

Capital grants

MIG Grant	76 618 135
	259 801 648

Equitable Share

Current-year receipts	145 299 000
Conditions met - transferred to revenue	(145 299 000)
	-

Municipal By-Law Grant

Current-year receipts	1 176 390
Conditions met - transferred to revenue	(176 390)
	1 000 000

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Finance Management Grant

Current-year receipts	3 561 945
Conditions met - transferred to revenue	(3 561 945)
	-

Conditions still to be met - remain liabilities (see note 14).

Sports Maintenance Grant

Current-year receipts	600 000
Conditions met - transferred to revenue	(324 998)

Notes to the Annual Financial Statements

Figures in Rand	2017

27. Government grants and subsidies (continued)

	275 002

Conditions still to be met - remain liabilities (see note 14).

Museum Subsidy Grant

Current-year receipts	334 000
Conditions met - transferred to revenue	(334 000)
	-

Conditions still to be met - remain liabilities (see note 14).

Intergrated National Electrification Programme (DME)

Current-year receipts	10 680 948
Conditions met - transferred to revenue	(10 680 948)
	-

Conditions still to be met - remain liabilities (see note 14).

Cyber Cadet Grant

Current-year receipts	1 270 143
Conditions met - transferred to revenue	(1 044 676)
	225 467

Conditions still to be met - remain liabilities (see note 14).

Expanded Public Works Programme Grant (EPWP)

Current-year receipts	2 660 000
Conditions met - transferred to revenue	(2 660 000)
	-

Conditions still to be met - remain liabilities (see note 14).

Intermodal Facility Grant

Current-year receipts	(8 048 960)
Conditions met - transferred to revenue	2 665 580
	5 383 380

Conditions still to be met - remain liabilities (see note 14).

Grant Income

Current-year receipts	128 330
Conditions met - transferred to revenue	(128 330)
	-

Municipal Systems Improvement Grant

Notes to the Annual Financial Statements

Figures in Rand	2017

27. Government grants and subsidies (continued)

Balance unspent at beginning of period	22 801
Conditions met - transferred to revenue	(22 801)
	-

Conditions still to be met - remain liabilities (see note 14).

Disaster Management Grant

Current-year receipts	28 100
Conditions met - transferred to revenue	(28 100)
	-

Conditions still to be met - remain liabilities (see note 14).

Subsidy Income

Current-year receipts	88 877
Conditions met - transferred to revenue	(88 877)
	-

Conditions still to be met - remain liabilities (see note 14).

LG SETA Grant

Current-year receipts	20 868
Conditions met - transferred to revenue	(20 868)
	-

Conditions still to be met - remain liabilities (see note 14).

Municipal Transition Dermacation Grant

Current-year receipts	8 579 000
Conditions met - transferred to revenue	(8 579 000)
	-

Conditions still to be met - remain liabilities (see note 14).

Libraries Grant

Current-year receipts	7 436 000
Conditions met - transferred to revenue	(7 436 000)
	-

Conditions still to be met - remain liabilities (see note 14).

Mobile Libraries Grant

Current-year receipts	132 000
Conditions met - transferred to revenue	(132 000)
	-

Notes to the Annual Financial Statements

Figures in Rand	2017

27. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 14).

Work Study Grant

Current-year receipts	700 000

Conditions still to be met - remain liabilities (see note 14).

Records Management Grant

Current-year receipts	200 000

Conditions still to be met - remain liabilities (see note 14).

Sports Grant

Current-year receipts	600 000

Conditions still to be met - remain liabilities (see note 14).

Municipal Infrastructure Grant

Current-year receipts	76 618 135
Conditions met - transferred to revenue	(76 618 135)
	-

Conditions still to be met - remain liabilities (see note 14).

Figures in Rand	2017

28. Employee related costs

Basic	186 569 443
Bonus	23 449 823
Medical aid - company contributions	54 479 403
WCA	99 805
Defined benefit plan	3 985 000
Travel, motor car, accommodation, subsistence and other allowances	13 891 697
Overtime payments	16 299 792
Long-service awards	993 000
Housing benefits and allowances	3 158 710
Other employee related costs	12 694 522
Senior management	8 548 560
	324 169 755

Remuneration of municipal manager

Annual Remuneration	1 114 567
Performance Bonus	159 375
Subsistance and Travel	32 899
	1 306 841

Remuneration of chief finance officer

Annual Remuneration	1 027 254
Cellphone Allowance	12 000
Performance Bonus	110 000
Subsistance and Travel	20 893
	1 170 147

Remuneration of Director Human settlement and Infrastructure

Annual Remuneration	854 082
Cellphone Allowance	12 000
Subsistence and travel	8 410
Performance bonus	55 104
	929 596

Remuneration of Director Corporate Services

Annual Remuneration	963 249
Cellphone Allowance	12 000
Subsistence allowance	18 885
Perfomance Bonus	124 293
	1 118 427

Remuneration of Director Planning and Economic Development

Annual Remuneration	938 000
Cellphone Allowance	12 000
Subsistence and travel	100 372
Performance Bonus	120 184
	1 170 556

Notes to the Annual Financial Statements

Figures in Rand	2017

28. Employee related costs (continued)

Mandla Mabece commenced his role as as the Chief Executive Officer of the Ugu South Coast Development agency on 01 October 2016. For the period of 01 October 2016 to 31 March 2017, he performed this role through a secondment arrangement between Ray Nkonyeni Municipality and Ugu South Coast Development Agency. As a result, all the remuneration expenses was borne by Ray Nkonyeni Municipality for this period.

Remuneration of Director Strategic planning and Governance

Annual Remuneration	959 063
Cellphone Allowance	12 000
Subsistence and travel	34 101
Performance Bonus	105 468
	1 110 632

Remuneration of Director Community Services

Annual Remuneration	468 581
Cellphone Allowance	7 200
Subsistence and travel	3 668
Performance Bonus	88 601
	568 050

Remuneration of Director Public Safety

Annual Remuneration	1 052 143
Cellphone Allowance	12 000
Performance Bonus	110 168
	1 174 311

29. Remuneration of councillors

Councillors	22 043 919

30. Depreciation and amortisation

Property, plant and equipment	59 944 536

31. Finance costs

Current borrowings	3 129 629

32. Debt impairment

Debt impairment	125 429 451
Bad debts written off	728 300
	126 157 751

33. Bulk purchases

Electricity	75 593 791

Notes to the Annual Financial Statements

Figures in Rand	2017

34. Contracted services

Information Technology Services	7 740 523
Fleet Services	8 489 959
Operating Leases	9 076 449
Specialist Services	6 892 289
Other Contractors	90 477
	32 289 697

Notes to the Annual Financial Statements

Figures in Rand	2017

35. General expenses

Advertising	565 920
Auditors remuneration	4 729 778
Bank charges	(212 839)
Cleaning	13 307 006
Computer expenses	1 045 025
Consulting and professional fees	7 072 136
Consumables	2 220 583
Debt collection	1 703 414
Discount allowed	3 961 973
Entertainment	2 006 457
Fines expenditure	8 869 447
Flowers	1 736 031
Gifts	1 449 353
Hire	3 051 425
Insurance	2 569 933
Bus Diesel	3 837 225
IT expenses	124 326
Magazines, books and periodicals	386 982
Motor vehicle expenses	2 608 354
Packaging	5 381 323
Pest control	2 807 831
Fuel and oil	2 369 676
Placement fees	956 450
Postage and courier	362 407
Printing and stationery	1 798 358
Promotions	27 150
Protective clothing	2 817 788
Secretarial fees	768 651
Security (Guarding of municipal property)	8 583 986
Software expenses	783 773
Staff welfare	558 460
Subscriptions and membership fees	235 094
Telephone and fax	9 409 185
Transport and freight	314 957
Training	6 799 076
Travel - local	364 450
Refuse	6 467 791
Electricity	9 863 036
Water	3 792 858
Uniforms	5 173 206
Tourism development	125 877
Conferences	1 281 050
Sundry expenses	4 046 701
Project expenses	10 921 378
Bad debts provision	3 351 850
Indigent support	1 818 533
Storm water drainage	2 056 883
Chemicals and pesticides	809 616
Other expenses	33 772 482
Rentals and Leases	23 005 882
Electricity Infills	7 490 714
	219 349 001

36. Operating lease

At the reporting date, the entity has outstanding commitments under operating leases which falls due as follows;

Notes to the Annual Financial Statements

Figures in Rand	2017

36. Operating lease (continued)

Item	Within 1 year	Later than 1 year not later than 5 years	Later than 5 years	Total
Buildings	2 883 550	2 154 911	-	5 038 461
Equipment	72 000	211 500	-	283 500
Fleet	10 394 767	9 858 539	-	20 253 306
	13 350 317	**12 224 950**	**-**	**25 575 267**

37. Cash generated from operations

Deficit	(19 524 334)
Adjustments for:	
Depreciation and amortisation	59 944 536
Prior year adjustment	1 033 451
Impairment deficit	1 765 413
Debt impairment	126 157 751
Movements in provisions	(3 837 225)
Changes in working capital:	
Inventories	236 186
Consumer debtors	(1 037 310)
Other receivables from non-exchange transactions	47 638 910
Payables from exchange transactions	(22 055 751)
VAT	9 554 848
Unspent conditional grants and receipts	(2 388 498)
Consumer deposits	1 074 847
	198 562 824

Notes to the Annual Financial Statements

Figures in Rand	2017

38. Mergers

Mergers occurring during the current reporting period

On 09 August 2016 a merger between Hibiscus Coast Municipality and Ezinqoleni Municipality took place establishing a new combined entity called Ray Nkonyeni Municipality. This was due to new legislation which determined that Hibiscus Coast Municipality and Ezinqoleni Municipality assets and liabilities should be combined. No acquirer could be identified.

The results of the merger are included in the 2016 and 2017 financial statements of the combined entities.

Comparative information is not required to be restated or adjusted.

Value of assets acquired and liabilities assumed

Assets acquired	
Inventory	3 630 047
Current: Other financial assets	898 443
Receivables from exchange transactions	47 561 090
Receivables from non-exchange transactions	232 400 218
Vat receivable	18 289 546
Cash and cash equivalents	114 686 907
Grants	3 365 285
Investment property	235 787 696
Property, plant and equipment	1 103 335 741
Intangible assets	581 972
Heritage assets	1 654 952
Non-current: Other financial assets	7 618 344
	1 769 810 241
Liabilities assumed	
Consumer deposits	21 851 290
Payables from exchange transactions	157 657 229
Current: Other financial liabilities	6 778 476
Current: Employee benefit obligation	3 279 000
Unspent conditional grants and receipts	35 951 557
Provisions	30 331 817
Current: Long service awards benefits liability	1 551 000
Non-current: Other finacial liabilities	28 440 874
Non-current: Employee benefit obligation	86 645 000
Non-current: Long service awards benefits liability	13 277 000
Medical Benefit	1 957 000
	387 720 243
Difference between the carrying amounts of the assets acquired and the liabilities assumed and any adjustments required to the basis of accounting, in net assets	**1 382 089 998**

On 10 August 2016 a merger between Hibiscus Coast Municipality and Ezinqoleni Municipality took place establishing a new combining entity called Ray Nkonyeni Municipality. This was due to new legislation which determined that Hibiscus Coast Municipality and Ezinqoleni Municipality assets and liabilities should be combined. No acquirer could be identified.

The results of the merger are included in the 2017 financial statements of the combined entities.

Comparative information is not required to be restated or adjusted.

Value of assets acquired and liabilities assumed

Contingent liabilities and contingent assets assumed or acquired

Notes to the Annual Financial Statements

Figures in Rand	2017

38. Mergers (continued)

Other information

39. Commitments

Authorised capital expenditure

Approved and contracted for:	
• Property, plant and equipment	55 330 835
Total capital commitments	
Approved and contracted for	55 330 835

Authorised operational expenditure

Already contracted for but not provided for	
• Operating commitments	20 736 425
Total operational commitments	
Already contracted for but not provided for	20 736 425

Total commitments

Total commitments	
Authorised capital expenditure	55 330 835
Authorised operational expenditure	20 736 425
	76 067 260

This committed expenditure has been disclosed exclusive of VAT, it relates to items of property, plant and equipment and will be financed by available retained surpluses, existing resources, funds internally generated and government grants.

40. Contingent liabilities and contingent assets

Contingent liabilities at the end of financial period were as follows:

Notes to the Annual Financial Statements

Figures in Rand	2017

40. Contingent liabilities and contingent assets (continued)

Name	Nature	A
Hume Housing (Quantum)	Dispute relating to varying interpretations of a previous court order	
PC Blackie	Loss of income claim	
TR Audan	Anlawful alienation of property	
PT Naude	Defamation of character	
S. Hlophe	Damages to vehicles as a result of potholes	
Bargaining Council	Failure to comply with regulations	
Thabimdeni Construction and projects cc	Counter claim for breach of contract	
MJ Light and Heavy Duty Repairs	Objection against the award of a tender	
RMG Civils CC	Specific performace and intedict	

Contingent assets at the end of financial period were as follows:

Name	Nature	A
Thabimdeni Construction and projects cc	Breach of contract	
Sika Engineering and Project Managers cc	Breach of contract	

Notes to the Annual Financial Statements

Figures in Rand	2017

41. Related parties

Relationships	
SM Mbili (Accounting Officers)	Refer to accounting officers' report note
Ugu District Municipality	Same council seat in council meeting
Ugu South Coast Tourism	Same council seat in council meeting
Umdoni Municipality	Same council seat in council meeting
Umzumbe Municipality	Same council seat in council meeting
Ugu South Coast Development Agency	Same council seat in council meeting
Associates	Refer to note
RS Dlamini (HOD Technical Services)	Section 57 Employee
N Thabatha (HOD Corporate Services)	Section 57 Employee
MB Ndwalane (HOD Community Services)	Section 57 Employee
ND Gqola (HOD Treasury)	Section 57 Employee
SA Nzimande (HOD Public Safety Services)	Section 57 Employee
SC Zama (HOD Development Planning Services)	Section 57 Employee
KJ Zulu (HOD Strategic Planning and Governance)	Section 57 Employee

Related party balances

Outstanding amounts of service charges from related parties:	
Councillors	50 837
Senior management	9 577
	60 414

Related party transactions

Grants from related parties	
Grants Revenue from related parties - See note 27	15 792 088
Grants to related parties	
Ugu South Coast Development Agency	1 494 737
Services purchased from related parties	
Ugu District Municipality - Water and sanitation	5 321 719
Ugu District Municipality - Fire hydrants	1 160 589
	6 482 308
Services sold to related parties	
Ugu South Coast Development Agency - Sale of electricity	30 105
Remuneration of related parties	
Directors' fees - See note 26	8 548 562
Councillors remuneration	22 043 919
	30 592 481
Secondments from and to related parties	
From Ugu District Municipality	185 376
To Ugu District Municipality	374 993
	560 369
Grant to related parties	
Ugu South Coast Development Agency	1 704 000

Notes to the Annual Financial Statements

Figures in Rand	2017

41. Related parties (continued)

Grant to related parties

Ugu South Coast Tourism	1 784 000

42. Comparative figures

No comparative figures have been presented as these are the first annual financial statements of the municipality.

In terms of GRAP 107, no comparative figures are required in the first year of the municipality's existence.

43. Risk management

Financial risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

45. Events after the reporting date

There were no material non-adjusting events came to attention of management.

46. Unauthorised expenditure

Community Services	11 210 622

Unauthorized expenditure is an overspending of the total amount appropriated in the municipality’s approved budget and overspending of the total amount appropriated for a vote or a functional area in the approved budget. Unauthorized expenditure of R11 210 622 is disclosed in the notes to the AFS per vote due to impairment of fines that is a non-cash item under community and public safety functional area.

Notes to the Annual Financial Statements

Figures in Rand	2017

47. Fruitless and wasteful expenditure

Auditor General	27 344
City of Choice Travel	16 248
Telkom	304
Hamba Kahle	482 061
Eskom	141 860
Less: written-off	(526 391)
	141 426

The fruitless and wasteful expenditure relates to interest and penalties.

48. Irregular expenditure

Opening balance	20 773 047
Apphile Nandi Trading and Projects (Pty) Ltd	364 244
Hintofield Investments	25 000
Inyameko Trading 602	250 000
Selcon Construction	164 813
Ntshebe Catering	164 954
Ntshebe Catering & School supply	161 501
Maveletshethe (Pty) Ltd	154 560
Essentials Pools	147 798
Ntshebe Catering	162 998
Buchule Engeneering	11 837 213
Haley Trading	3 312 827
Less: Amounts written off	(639 243)
	36 879 712

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	3 055 225
Amount paid - current year	(3 055 225)
	-

Electricity losses

Amount paid - current year	10 133 685

The electricity losses in units is 11 052 957 and the cost per unit is R0.92. The electricity losses incurred in the current year amounted to 11.5% when compared to the total units bought in the current year.

Audit fees

Current year subscription / fee	4 660 134
Amount paid - current year	(4 660 134)
	-

Notes to the Annual Financial Statements

Figures in Rand	2017

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Current year subscription / fee	38 270 054
Amount paid - current year	(38 270 054)
	-

Pension and Medical Aid Deductions

Current year subscription / fee	67 556 592
Amount paid - current year	(67 556 592)
	-

VAT

VAT receivable	8 734 697

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor S Breedt	1 589	-	1 589
Councillor R Gumbi	2 273	39 906	42 179
Councillor S Nkomo	1 305	5 792	7 097
	5 167	**45 698**	**50 865**

During the period the following Councillors' had arrear accounts outstanding for more than 90 days.

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.
Goods and services were procured during the financial period under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Section 36 Deviations	
In an emergency - s36(1)(a)(1)	243 497
Sole supplier - s36(1)(a)(ii)	13 556
Impractical or impossible to follow the official procurement process - S36(1)(a)(v)	2 731 719
	2 988 772

51. Budget differences

Material differences between budget and actual amounts

Figures in Rand 2017

51. Budget differences (continued)

Reasons for differences identified in the Statement of Comparison of Budget and Actual:

51.1 Service charges: Refuse was less than anticipated due to customers applying for indigent support. The current economic climate has also been a major reason for a decline in payments by consumer.
51.2: Rental of facilities and equipment: More events were held than anticipated.
51.3: Interest received (trading): Increase in interest due to increased outstanding debt.
51.4: Agency fees: Due to an increase in motor licencing.
51.5: Licences and permits:Licences and permits include drivers licences, learners licences and other various permits. These are highly dependent on consumers needs, which in this current year was less than anticipated.
51.6: Other Income: Revenue from town planning and building fees were less than anticipated.
51.7: Interest received (Investments): Increase of funds held in interest earning investments.
51.8: Fines, penalties and forfeits: Increased offences as well as iGRAP 1 implementation.
51.9: Remuneration of councillors: Savings due to the death of 3 councillors.
51.10: Depreciation and amortisation: Due to projects still in "Work-in-Progress", thus less depreciation than anticipated.
51.11: Impairment loss: Due to asset verification conducted upon merger.
51.12: Finance cost: Decrease as a result of a lower interest rates than anticipated on variable interest bearing loans..
51.13: Debt Impairment: Due to low collection rate trend has led to lower recoverability of debt.
51.14: Contracted services: Less than anticipated due to the fact that expenditure arises on a 'needs' basis.
51.15: Transfers and subsidies:Less expenditure than anticipated due to cost-containment measures.
51.16: General expenses: Due to R121.4 million non-cash item relating to impairment of traffic fines.
51.17: Repairs and maintanance: Less damages to assets than anticipated in the year under review.